

**REPORT OF THE AUDIT OF THE
DAVIESS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated Daviess County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE DAVISS COUNTY FISCAL COURT

June 30, 2006

Tichenor & Associates, LLP has completed the audit of the Daviess County Fiscal Court for fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Daviess County's major federal programs: Homeland Security Grant Program (CFDA #97.067), Help America Vote Act Requirements Payments (CFDA #90.401) and Title IV-D Child Support Enforcement Program (CFDA #93.563).

Financial Condition:

The fiscal court had net assets of \$77,462,570 as of June 30, 2006. The fiscal court had unrestricted net assets of \$11,411,848 in its governmental activities as of June 30, 2006, with total net assets of \$71,110,755. In its business-type activities, total cash and cash equivalents were \$5,304,741 with total net assets of \$6,351,815. The fiscal court had total debt principal as of June 30, 2006 of \$15,706,304 with \$875,040 due within the next year.

Deposits:

As of June 30, 2006, the fiscal court's deposits were insured and collateralized by bank securities.

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TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775

FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Daviess County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Daviess County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

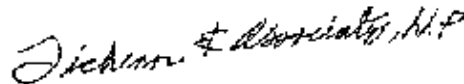
To the People of Kentucky
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The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Daviess County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2006, on our consideration of Daviess County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Tichenor & Associates, LLP", is written over the printed name of the firm.

December 19, 2006

Tichenor & Associates, LLP

DAVISS COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Reid Haire	County Judge/Executive
Bruce Kunze	Commissioner
Jim Lambert	Commissioner
Mike Riney	Commissioner

Other Elected Officials:

Robert Kirtley	County Attorney
David Osborne	Jailer
J. Michael Libs	County Clerk
Susan Tierney	Circuit Court Clerk
Keith Cain	Sheriff
Ron Durbin	Property Valuation Administrator
Bob Howe	Coroner

Appointed Personnel:

Anthony Sook	County Treasurer
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Daviess County Fiscal Court

COUNTY JUDGE/EXECUTIVE
Reid Haire

COUNTY ATTORNEY
Robert M. Kirtley

Daviess County Courthouse
P. O. Box 1716
Owensboro, Kentucky 42302-1716
Telephone: (270) 685-8424
Fax: (270) 685-8469
www.daviessky.org

COUNTY COMMISSIONERS
Bruce Kunze - Central Division
Jim Lambert - East Division
Mike Riney - West Division

Management's Discussion and Analysis June 30, 2006

The financial management of Daviess County, Kentucky offers readers of Daviess County's financial statements this narrative overview and analysis of the financial activities of Daviess County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Daviess County had net assets of \$77,462,570 as of June 30, 2006. The fiscal court had unrestricted net assets of \$11,411,848 in the governmental funds as of June 30, 2006, with total net assets of \$71,110,755. In the enterprise fund, cash and cash equivalents were \$5,304,741 with total assets of \$8,541,815. Total debt for governmental funds principal as of June 30, 2006 was \$13,516,304 with \$640,040 due within one year. Total debt for enterprise funds principal as of June 30, 2006 was \$2,190,000 with \$235,000 due within one year.
- The governmental fund's total net assets increased by \$1,254,551 from the prior year. This is principally the result of increased revenue in the Detention Center operations and operational cost savings.
- At the close of the current fiscal year, Daviess County governmental funds reported current assets of \$11,411,848, which is available for spending at the government's discretion (unreserved fund balance).
- Daviess County's total indebtedness at the close of fiscal year June 30, 2006 was \$15,706,304, of which \$14,831,264 is long-term debt (due after 1 year) and \$875,040 is short-term debt (to be paid within 1 year). The City of Owensboro Airport Bond Issue refinanced during the year. Through a lease the Fiscal Court is obligated to pay 42.24% of the cost associated with these bonds. Daviess County government recognized a gain of \$297,880 on the refunding of this debt.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Daviess County's basic financial statements. Daviess County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Daviess County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Overview of the Financial Statements (Continued).

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Daviess County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Daviess County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Daviess County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Daviess County's governmental activities include general government, protection to persons and property, roads, recreation, social services, airport, debt service, capital projects, and administration. Daviess County has two business type activities - Jail Canteen and the Solid Waste Fund.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Daviess County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Daviess County can be divided into broad categories: *governmental funds, proprietary and fiduciary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

**Daviess County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Because of focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Daviess County maintains (6) six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road Fund
- Jail Fund

Non-major Funds:

- Local Government Economic Assistance Fund
- County Bond Sinking Fund
- Daviess County Public Improvement Corporation

Daviess County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets. The County Bond Sinking Fund will be budgeted in the fiscal year ending June 30, 2006. A budgetary comparison statement has been provided for the General Fund, Road Fund, and Jail Fund to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The proprietary fund financial statements provide separate information for the Jail Canteen Fund and the Solid Waste Fund.

Internal Service Fund. Health Insurance Fund - The County maintains this internal service fund to account for the health insurance provided for other funds, on a cost reimbursement basis.

Fiduciary Funds. Fiduciary funds report only those resources held in trust or custodial capacity for individuals, private organizations or other governments.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Daviess County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Table 1
Net Assets Comparison - Governmental Activities

	2005	2006	Variance	%
Assets				
Current and Other Assets	\$ 10,943,899	\$ 11,411,848	\$ 467,949	4.28%
Capital Assets	73,342,305	73,215,211	(127,094)	-0.17%
Total Assets	84,286,204	84,627,059	340,855	0.40%
Liabilities				
Current Liabilities	630,000	640,040	10,040	1.59%
Long-term Liabilities	13,800,000	12,876,264	(923,736)	-6.69%
Total Liabilities	14,430,000	13,516,304	(913,696)	-6.33%
Net Assets				
Invested in Capital Assets, Net of Related Debt	58,912,305	59,698,907	786,602	1.34%
Restricted				
Unrestricted	10,943,899	11,411,848	467,949	4.28%
Total Net Assets	\$ 69,856,204	\$ 71,110,755	\$ 1,254,551	1.80%

Table 2
Net Assets Comparison - Business Type Activities

	2005	2006	Variance	%
Assets				
Current and Other Assets	\$ 5,183,780	\$ 5,304,741	\$ 120,961	2.33%
Capital Assets	3,406,451	3,237,074	(169,377)	-4.97%
Total Assets	8,590,231	8,541,815	(48,416)	-0.56%
Liabilities				
Current Liabilities	225,000	235,000	10,000	4.44%
Long-term Liabilities	2,190,000	1,955,000	(235,000)	-10.73%
Total Liabilities	2,415,000	2,190,000	(225,000)	-9.32%
Net Assets				
Invested in Capital Assets, Net of Related Debt	991,451	1,047,074	55,623	5.61%
Restricted	1,722,497	1,744,954	22,457	1.30%
Unrestricted	3,461,283	3,559,787	98,504	2.85%
Total Net Assets	\$ 6,175,231	\$ 6,351,815	\$ 176,584	2.86%

Changes in Net Assets.

Governmental Activities. Daviess County's net assets increased by \$1,254,551 in fiscal year 2006. Key elements of this are as follows:

- Current assets and cash increased \$467,949.
- Investment in capital assets and infrastructure, net of related debt increased \$786,602.

Daviess County
Management's Discussion and Analysis
June 30, 2006
(Continued)

- Current and long-term liabilities decreased by \$913,696, due to debt principal repaid and refinancing of the Airport Bond Issue by the City of Owensboro.
- General revenues were \$12,895,337 and total revenues were \$24,695,811 as reflected in the Statement of Activities
- Expenditures totaled \$23,441,260 as reflected in the Statement of Activities.

Business-type Activities. Daviess County's net assets increased by \$176,584 in fiscal year 2006. Key elements are as follows:

- Current assets and cash increased by \$58,646.
- Investment in capital and infrastructure net of related debt increased by \$55,623.
- Current and long-term liabilities decreased by \$225,000, due to debt principal repaid.
- Total revenue was \$4,977,824 as reflected in the Statement of Activities.
- Expenditures totaled \$ 4,801,240 as reflected in the Statement of Activities.

Table 3
Statement of Activities Comparison -
Governmental Activities

	2005	2006	Variance	%
Expenses:				
General Government	\$ 6,713,802	\$ 5,734,004	\$ (979,798)	-14.59%
Protection to Persons and Property	7,609,707	8,110,181	500,474	6.58%
General Health and Sanitation	268,908	281,804	12,896	4.80%
Social Services	306,660	267,951	(38,709)	-12.62%
Recreation and Culture	949,574	1,375,201	425,627	44.82%
Roads	5,821,460	5,475,815	(345,645)	-5.94%
Airports	107,044	85,235	(21,809)	-20.37%
Bus Services	319,449	210,000	(109,449)	-34.26%
Interest on Long Term Debt	559,451	542,028	(17,423)	-3.11%
Capital Projects	1,726,625	1,359,041	(367,584)	-21.29%
Total Expenses	24,382,680	23,441,260	(941,420)	-3.86%

Daviess County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Table 3
Statement of Activities Comparison -
Governmental Activities (continued)

	2005	2006	Variance	%
Revenues:				
General Revenue	\$ 11,704,128	\$ 12,895,337	\$ 1,191,209	10.18%
Charges for Services	5,515,525	5,971,428	455,903	8.27%
Operating Grants and Contributions	5,394,347	4,498,089	(896,258)	-16.61%
Capital Grants and Contributions	584,950	1,330,957	746,007	127.53%
Total Revenue	23,198,950	24,695,811	1,496,861	6.45%
Change in Net Assets	(1,183,730)	1,254,551	2,438,281	-205.98%
Beginning Net Assets	71,039,934	69,856,204	(1,183,730)	-1.67%
Ending Net Assets	\$ 69,856,204	\$ 71,110,755	\$ 1,254,551	1.80%

Table 4
Statement of Activities Comparison -
Business Type Activities

	2005	2006	Variance	%
Expenses:				
Jail Canteen	\$ 481,750	\$ 689,341	\$ 207,591	43.09%
Solid Waste Operating	3,486,416	4,111,899	625,483	17.94%
Total Expenses	3,968,166	4,801,240	833,074	20.99%
Revenues:				
General Revenue	124,816	228,798	103,982	83.31%
Charges for Services	4,567,018	4,749,026	182,008	3.99%
Total Revenue	4,691,834	4,977,824	285,990	6.10%
Change in Net Assets	723,668	176,584	(547,084)	-75.60%
Beginning Net Assets	5,451,563	6,175,231	723,668	13.27%
Ending Net Assets	\$ 6,175,231	\$ 6,351,815	\$ 176,584	2.86%

Financial Analysis of County's Funds

As noted earlier, Daviess County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Daviess County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Financial Analysis of County's Funds (continued).

Governmental Funds Overview. The focus of Daviess County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2006 fiscal year, the combined ending fund balances of County governmental funds were \$11,411,845. This amount consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds.

The County has (3) three major governmental, and (3) three non-major funds.

Major Funds

- General Fund
- Road Fund
- Jail Fund

Non-major Funds

- Local Government Economic Assistance Fund
- County Bond Sinking Fund
- Daviess County Public Improvement Corporation Fund

1. The General Fund is the chief operating fund of Daviess County. At the end of June 30, 2006 fiscal year, unreserved fund balance of the General Fund was \$9,021,799. The County received \$10,728,629 in real and personal property, motor vehicle, and other taxes for approximately 83% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 17% of revenues.
2. The Road and Bridge Fund is the fund related to County road and bridge construction and maintenance. The Road and Bridge Fund had \$73,085 fund balance at June 30, 2006. The fiscal year 2006 expenditures for Road and Bridge Fund were \$3,475,818.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a balance at June 30, 2006 of \$704,805. The Jail Fund received \$4,453,665 for intergovernmental fees, primarily for housing prisoners.
4. The non-major governmental funds had a fund balance of \$1,133,786 at June 30, 2006.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

**Daviess County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Financial Analysis of the County's Funds (Continued).

Daviess County has (2) two enterprise-type proprietary funds, they are:

- Jail Canteen Fund
- Solid Waste Fund

The Jail Canteen Fund's restricted net assets at the end of June 30, 2006 fiscal year, amounted to \$44,820 and total assets were \$89,637.

The Solid Waste Fund at the end of June 30, 2006 fiscal year had \$8,452,178 in total assets, \$3,560,358 in unrestricted assets, \$1,699,563 in restricted assets, and \$1,002,257 invested in capital assets.

General Fund Budgetary Highlights.

During the Fiscal Year ending June 30, 2006, the Fiscal Court had no budget amendments.

Capital Assets and Debt Administration.

Capital Assets. Daviess County's investment in capital assets for its government and business type activities as of June 30, 2006, amounted to \$76,452,285 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, current infrastructure additions, construction in progress for park improvements, and old jail improvement. Daviess County has elected to report infrastructure assets per GASB 34 provisions.

Major capital asset events during the 2006 fiscal year included:

- Renovation of the Robert Kirtley Judicial Annex, formerly Smith Butterfield building.
- Renovations to the Daviess County courthouse for Americans with Disabilities compliance.
- Constructed an additional building to protect capital assets at the Operations Center.
- Installation of a new community warning siren in Sorgho to expand our emergency community warning system.
- Installation of Welcome signage at two major entrance points in Daviess County.
- Begin preliminary design work on a downtown parking garage.
- Replaced heavy equipment for operations in the solid waste, fire, emergency management, parks, and road departments.
- Replaced three bridges in Daviess County.

Additional information of the County's capital assets can be found in Note 3 of this report.

Daviess County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Table 5

**Capital Assets Comparison, Net of Accumulated
Depreciation - Governmental Activities**

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Land and Land Improvements	\$ 2,082,742	\$ 2,080,982	\$ (1,760)	-0.08%
Const. In Progress	621,362	1,667,243	1,045,881	168.32%
Buildings	20,440,219	20,812,913	372,694	1.82%
Vehicles and Equipment	3,108,342	3,339,737	231,395	7.44%
Infrastructure	47,089,640	45,314,336	(1,775,304)	-3.77%
Total Net Capital Assets	<u>\$ 73,342,305</u>	<u>\$ 73,215,211</u>	<u>\$ (127,094)</u>	-0.17%

Table 6

**Capital Assets Comparison, Net of Accumulated
Depreciation - Business Type Activities**

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Land and Land Improvements	\$ 972,406	\$ 726,307	\$ (246,099)	-25.31%
Buildings	446,329	433,052	(13,277)	-2.97%
Vehicles and Equipment	1,987,716	2,077,715	89,999	4.53%
Total Net Capital Assets	<u>\$ 3,406,451</u>	<u>\$ 3,237,074</u>	<u>\$ (169,377)</u>	-4.97%

Long-Term Debt. At the end of the 2006 fiscal year, Daviess County had total bonded debt outstanding of \$14,720,000 from General Obligation Bonds. The County has (1) one lease totaling \$986,304. Additional information on the County's debt can be found in Notes 4 and 5 of this report.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2007 fiscal year budget:

- The 2007 fiscal year adopted budget continues services at current levels.
- Economic factors indicate a steady, moderate growth rate in Daviess County in the area of assessed values for real property and tangible property.
- The County received a \$2,000,000 federal transportation grant to assist in the construction of a downtown parking garage.
- The Daviess County jail operation ended the year with a \$704,805 fund balance, which allowed the fiscal court to reduce the estimated contribution for operations for 2007 to \$700,000, and will continue to monitor the impact of the operation.

**Daviess County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

- The County Employee Retirement System has continued to increase the employer contribution rate for the defined benefit plan provided to the employee's. The Fiscal Court will continue to monitor the impact of these increases and its impact on the service levels provided to the community.
- The County instituted an occupational tax that took effect July 1, 2005. The Fiscal Court approved the reduction of this tax rate from .5 to .35 beginning January 1, 2007. The impact of this reduction was considered in developing the 2007 budget and will continue to be monitored.

Requests For Information.

This financial report is designed to provide a general overview of Daviess County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Daviess County Treasurer, 212 St Ann Street, Second Floor, Owensboro, KY 42103.

DAVISS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

DAVIESS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 11,411,848	\$ 5,304,741	\$ 16,716,589
Total Current Assets	11,411,848	5,304,741	16,716,589
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	1,040,900	316,250	1,357,150
Land Improvements	1,040,082	410,057	1,450,139
Construction in Progress	1,667,243		1,667,243
Buildings	20,812,913	433,052	21,245,965
Vehicles and Equipment	3,339,737	2,077,715	5,417,452
Infrastructure Assets - Net of Depreciation	45,314,336		45,314,336
Total Noncurrent Assets	73,215,211	3,237,074	76,452,285
Total Assets	84,627,059	8,541,815	93,168,874
LIABILITIES			
Current Liabilities:			
Bonds Payable	545,000	235,000	780,000
Financing Obligations Payable	95,040		95,040
Total Current Liabilities	640,040	235,000	875,040
Noncurrent Liabilities:			
Bonds Payable	11,985,000	1,955,000	13,940,000
Financing Obligations Payable	891,264		891,264
Total Noncurrent Liabilities	12,876,264	1,955,000	14,831,264
Total Liabilities	13,516,304	2,190,000	15,706,304
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	59,698,907	1,047,074	60,745,981
Restricted For:			
Post-Closure Care Costs		1,699,563	1,699,563
Jail Canteen		45,391	45,391
Unrestricted	11,411,848	3,559,787	14,971,635
Total Net Assets	\$ 71,110,755	\$ 6,351,815	\$ 77,462,570

The accompanying notes are an integral part of the financial statements.

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DAVISS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

DAVISS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,734,004	\$ 838,167	\$ 2,970,103	\$ 1,330,957
Protection to Persons and Property	8,110,181	4,849,082	97,269	
General Health and Sanitation	281,804	52,963		
Social Services	267,951			
Recreation and Culture	1,375,201	31,216		
Roads	5,475,815	200,000	1,430,717	
Airports	85,235			
Bus Services	210,000			
Interest on Long-Term Debt	542,028			
Capital Projects	1,359,041			
Total Governmental Activities	23,441,260	5,971,428	4,498,089	1,330,957
Business-type Activities:				
Jail Canteen	689,341	542,224		
Solid Waste Operations	4,111,899	4,206,802		
Total Business-type Activities	4,801,240	4,749,026		
Total Primary Government	\$ 28,242,500	\$ 10,720,454	\$ 4,498,089	\$ 1,330,957

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Surplus Real Property Sales

Miscellaneous Revenues

Vending Commissions

Telephone Commissions

Farm Income

Insurance Reimbursement

Gain on Financing Obligation

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (594,777)	\$	\$ (594,777)
(3,163,830)		(3,163,830)
(228,841)		(228,841)
(267,951)		(267,951)
(1,343,985)		(1,343,985)
(3,845,098)		(3,845,098)
(85,235)		(85,235)
(210,000)		(210,000)
(542,028)		(542,028)
(1,359,041)		(1,359,041)
(11,640,786)		(11,640,786)
	(147,117)	(147,117)
	94,903	94,903
	(52,214)	(52,214)
(11,640,786)	(52,214)	(11,693,000)
4,404,233		4,404,233
681,220		681,220
860,212		860,212
4,782,967		4,782,967
712,335		712,335
51,250		51,250
329,650		329,650
126		126
191,278		191,278
6,152		6,152
29,511		29,511
297,880		297,880
548,523	228,798	777,321
12,895,337	228,798	13,124,135
1,254,551	176,584	1,431,135
69,856,204	6,175,231	76,031,435
\$ 71,110,755	\$ 6,351,815	\$ 77,462,570

The accompanying notes are an integral part of the financial statements.

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DAVIESS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

DAVIESS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund
ASSETS			
Cash and Cash Equivalents	\$ 9,021,799	\$ 73,084	\$ 704,805
Total Assets	<u>\$ 9,021,799</u>	<u>\$ 73,084</u>	<u>\$ 704,805</u>
FUND BALANCES			
Unreserved:			
General Fund	\$ 9,021,799	\$	\$
Special Revenue Funds		73,084	704,805
Debt Service Funds			
Total Fund Balances	<u>\$ 9,021,799</u>	<u>\$ 73,084</u>	<u>\$ 704,805</u>

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
<u>\$ 1,133,786</u>	<u>\$ 10,933,474</u>
<u><u>\$ 1,133,786</u></u>	<u><u>\$ 10,933,474</u></u>
\$ 241,985	\$ 9,021,799
891,801	1,019,874
<u>891,801</u>	<u>891,801</u>
<u>\$ 1,133,786</u>	<u>\$ 10,933,474</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets

Total Fund Balances

Amounts Reported For Governmental Activities In The Statement \$ 10,933,474
Of Net Assets Are Different Because:

Capital Assets Used in Governmental Activities Are Not Financial Resources
And Therefore Are Not Reported in the Funds.

144,611,655

Accumulated Depreciation

(71,396,444)

Internal Service Fund is used by management to charge the cost of health
insurance to individual funds. The assets and liabilities are included
in governmental activities on the Statement of Net Assets

478,374

Long- term debt is not due and payable in the current period and, therefore, is not reported
in the funds.

Due Within One Year - Bonds and Financing Obligations Principal

(640,040)

Due In More Than One Year - Bonds and Financing Obligations Principal

(12,876,264)

Net Assets Of Governmental Activities

\$ 71,110,755

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DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Jail Fund
REVENUES			
Taxes	\$ 11,044,448	\$	\$
In Lieu Tax Payments	1,308		
Excess Fees	712,335		
Licenses and Permits	129,146		
Intergovernmental	3,833,863	1,862,808	4,453,665
Charges for Services	60,762		459,888
Miscellaneous	452,788	18,666	313,308
Interest	444,154	26,156	25,251
Total Revenues	<u>16,678,804</u>	<u>1,907,630</u>	<u>5,252,112</u>
EXPENDITURES			
General Government	5,345,750		
Protection to Persons and Property	2,271,643		5,254,874
General Health and Sanitation	279,485		
Social Services	268,613		
Recreation and Culture	1,374,126		
Roads		3,468,313	
Airports	176,051		
Bus Services	210,000		
Debt Service			
Capital Projects	1,359,041		
Administration	2,702,006	7,505	1,098
Total Expenditures	<u>13,986,715</u>	<u>3,475,818</u>	<u>5,255,972</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>2,692,089</u>	<u>(1,568,188)</u>	<u>(3,860)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		1,500,000	750,000
Transfers To Other Funds	(2,698,306)		(425,293)
Total Other Financing Sources (Uses)	<u>(2,698,306)</u>	<u>1,500,000</u>	<u>324,707</u>
Special Item			
Proceeds from disposal of capital assets	<u>51,251</u>		
Net Change in Fund Balances	45,034	(68,188)	320,847
Fund Balances - Beginning	8,976,765	141,272	383,958
Fund Balances - Ending	<u>\$ 9,021,799</u>	<u>\$ 73,084</u>	<u>\$ 704,805</u>

The accompanying notes are an integral part of the financial statements

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
\$	\$ 11,044,448
	1,308
	712,335
	129,146
455,171	10,605,507
	520,650
	784,762
52,962	548,523
508,133	24,346,679
	5,345,750
	7,526,517
	279,485
	268,613
	1,374,126
290,580	3,758,893
	176,051
	210,000
1,067,028	1,067,028
	1,359,041
	2,710,609
1,357,608	24,076,113
(849,475)	270,566
873,599	3,123,599
	(3,123,599)
873,599	
	51,251
24,124	321,817
1,109,662	10,611,657
\$ 1,133,786	\$ 10,933,474

The accompanying notes are an integral part of the financial statements

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**DAVIESS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

DAVISS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 321,817
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Book Value - Disposed Assets	(46,319)
Capital Outlay	3,359,797
Construction in Progress	1,045,881
Depreciation Expense	(4,486,453)
Internal service funds are used by management to charge the cost of health insurance to individual funds. The net revenues (expenses) of this fund are reported with governmental activities.	146,132
The issuance of long term debt provides current financial resources to governmental funds while repayment consumes the current financial resources. These transactions have no effect on net assets.	
Financing Obligations reduction on debt and principal payments	388,696
Bond Principal Payment	525,000
	<hr/>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,254,551</u></u>

The accompanying notes are an integral part of the financial statements

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DAVIESS COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2006

DAVISS COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Jail Canteen Fund	Solid Waste Fund	Totals	Internal Service Fund - Health Insurance Fund
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 44,820	\$ 5,259,921	\$ 5,304,741	\$ 478,374
Total Current Assets	44,820	5,259,921	5,304,741	478,374
Noncurrent Assets:				
Capital Assets:				
Land		316,250	316,250	
Land Improvements		8,501,763	8,501,763	
Buildings		584,197	584,197	
Vehicles and Equipment	99,193	5,282,999	5,382,192	
Less Accumulated Depreciation	(54,376)	(11,492,952)	(11,547,328)	
Total Noncurrent Assets	44,817	3,192,257	3,237,074	
Total Assets	89,637	8,452,178	8,541,815	478,374
Liabilities				
Current Liabilities:				
Bonds Payable		235,000	235,000	
Total Current Liabilities		235,000	235,000	
Noncurrent Liabilities:				
Bonds Payable		1,955,000	1,955,000	
Total Noncurrent Liabilities		1,955,000	1,955,000	
Total Liabilities		2,190,000	2,190,000	
Net Assets				
Invested in Capital Assets, Net of Related Debt	44,817	1,002,257	1,047,074	
Restricted For:				
Post-Closure Care Costs		1,699,563	1,699,563	
Jail Canteen	44,820		44,820	
Unrestricted		3,560,358	3,560,358	478,374
Total Net Assets	\$ 89,637	\$ 6,262,178	\$ 6,351,815	\$ 478,374

The accompanying notes are an integral part of the financial statements.

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DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

DAVISS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Jail Canteen Fund	Solid Waste Fund	Totals	Internal Service Fund - Health Insurance Fund
Operating Revenues				
Canteen Receipts	\$ 542,224	\$	\$ 542,224	\$
Refunds/Reimbursements				1,959,428
Recycling Receipts		59,929	59,929	
Off-Site Waste Management Fee		121,694	121,694	
Other Receipts		98,345	98,345	
Tipping Fees		3,926,834	3,926,834	
Total Operating Revenues	542,224	4,206,802	4,749,026	1,959,428
Operating Expenses				
Administration Fees				1,814,437
Advertising		2,900	2,900	
Building & Construction		80,889	80,889	
Consulting Engineering		10,447	10,447	
Cost of Sales	510,415		510,415	
Data Processing		4,518	4,518	
Depreciation	15,288	718,152	733,440	
Earth Works		74,613	74,613	
Educational and Recreational	163,586		163,586	
Engineering Services		32,722	32,722	
Environmental Remediation Fee		385,593	385,593	
Equipment		31,354	31,354	
Equipment Rental		61,441	61,441	
Food - Work Release		19,415	19,415	
Fuel & Oil		379,882	379,882	
Gravel		18,059	18,059	
Insurance		68,228	68,228	
Leachate Disposal		22,467	22,467	
Materials & Supplies		24,799	24,799	
Methan Management		279,291	279,291	
Miscellaneous	52	2,222	2,274	
Office Supplies		5,476	5,476	
Personnel Costs		1,497,566	1,497,566	
Prisoner Uniforms - Footwear		2,549	2,549	

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Jail Canteen Fund	Solid Waste Fund	Totals	Internal Service Fund - Health Insurance Fund
Operating Expenses (continued)				
Registrations, Conferences & Training	\$	\$ 4,177	\$ 4,177	\$
Repairs & Maintenance		126,160	126,160	
Sampling/Monitoring		34,208	34,208	
Special Waste Diversion		2,606	2,606	
Telephone		6,332	6,332	
Tire Disposal		1,595	1,595	
Tires & Tubes		77,979	77,979	
Tools		4,349	4,349	
Uniforms		11,482	11,482	
Utilities		18,994	18,994	
Total Operating Expenses	689,341	4,010,465	4,699,806	1,814,437
Operating Income (Loss)	(147,117)	196,337	49,220	144,991
Nonoperating Revenues (Expenses)				
Interest Income	3,402	225,396	228,798	1,141
Interest Expense		(101,434)	(101,434)	
Total Nonoperating Revenues (Expenses)	3,402	123,962	127,364	1,141
Net Income (Loss) Before Transfers	(143,715)	320,299	176,584	146,132
Transfers In		(815,669)	(815,669)	
Transfers Out		815,669	815,669	
Change In Net Assets	(143,715)	320,299	176,584	146,132
Total Net Assets - Beginning (Restated)	233,352	5,941,879	6,175,231	332,242
Total Net Assets - Ending	\$ 89,637	\$ 6,262,178	\$ 6,351,815	\$ 478,374

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

DAVIESS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Jail Canteen Fund	Solid Waste Fund	Totals	Internal Service Fund - Health Insurance Fund
Cash Flows From Operating Activities				
Receipts From Customers	\$ 542,224	\$ 4,108,456	\$ 4,650,680	\$ 1,959,428
Other Receipts		98,346	98,346	
Administrative Expenses				(1,814,437)
Cost of Sales	(497,655)		(497,655)	
Educational and Recreational	(176,346)		(176,346)	
Environmental Remediation Fee		(385,593)	(385,593)	
Equipment Rental		(61,441)	(61,441)	
Fuel and Oil		(379,882)	(379,882)	
Insurance		(68,288)	(68,288)	
Materials and Supplies		(24,799)	(24,799)	
Miscellaneous	(52)	(2,222)	(2,274)	
Other Operating Expenses		(635,661)	(635,661)	
Personnel Costs		(1,497,566)	(1,497,566)	
Professional Fees		(32,722)	(32,722)	
Repairs and Maintenance		(126,161)	(126,161)	
Tires and Tubes		(77,979)	(77,979)	
Net Cash (Used) Provided By Operating Activities	(131,829)	914,488	782,659	144,991
Cash Flows From Noncapital Financing Activities				
Transfers From Other Funds		(815,669)	(815,669)	
Transfers To Other Funds		815,669	815,669	
Net Cash (Used) By Noncapital Financing Activities				
Cash Flows From Capital and Related Financing Activities				
Principal Payments		(225,000)	(225,000)	
Interest Expense		(101,434)	(101,434)	
Capital Assets Purchased		(564,063)	(564,063)	
Net Cash (Used) By Capital and Related Financing Activities		(890,497)	(890,497)	

DAVIESS COUNTY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

(Continued)

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Jail Canteen Fund	Solid Waste Fund	Totals	Internal Service Fund - Health Insurance Fund
Cash Flows From Investing Activities				
Interest Earned	\$ 3,402	\$ 225,397	\$ 228,799	\$ 1,141
Net Cash Provided By Investing Activities	3,402	225,397	228,799	1,141
Net Increase (Decrease) in Cash and Cash Equivalents	(128,427)	249,388	120,961	146,132
Cash and Cash Equivalents - July 1, 2005 (Restated)	173,247	5,010,533	5,183,780	332,242
Cash and Cash Equivalents - June 30, 2006	<u>\$ 44,820</u>	<u>\$ 5,259,921</u>	<u>\$ 5,304,741</u>	<u>\$ 478,374</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ (147,117)	\$ 196,337	\$ 49,220	\$ 144,991
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities - Depreciation Expense	15,288	718,152	733,440	
Total Cash Provided (Used) By Operating Activities	<u>\$ (131,829)</u>	<u>\$ 914,489</u>	<u>\$ 782,660</u>	<u>\$ 144,991</u>

DAVIESS COUNTY
STATEMENT OF FIDUCIARY NET ASSETS-MODIFIED CASH BASIS

June 30, 2006

DAVIESS COUNTY
STATEMENT OF FIDUCIARY NET ASSETS-MODIFIED CASH BASIS

June 30, 2006

	<u>Agency Funds</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 159,444</u>
 Total Assets	 <u><u>\$ 159,444</u></u>
 Liabilities	
Amounts Held In Custody For Others	<u>\$ 159,444</u>
 Total Liabilities	 <u><u>\$ 159,444</u></u>

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TO THE FINANCIAL STATEMENTS**

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DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Daviess County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

Daviess County Public Improvement Corporation

The Daviess County Fiscal Court appoints the Public Improvement Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Improvement Corporation. Financial information for the Public Improvement Corporation is blended within Daviess County's financial statements. All activities of the Public Improvement Corporation are accounted for within a non-major (debt service) fund.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Kentucky law provides for election of the officials below from the geographic area constituting Daviess County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

Additional Daviess County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary fund. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, County Bond Sinking Fund, and the Daviess County Public Improvement Corporation Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Special Revenue Funds:

The Road Fund, Jail Fund, and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Funds:

The County Bond Sinking Fund and Daviess County Public Improvement Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund and charges to customers for tipping fees in the Solid Waste Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued November 30, 1989, unless the Governmental Accounting Standards Board (GASB) adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Solid Waste Fund - The primary purpose of this fund is to account for the activities of the landfill. The primary sources of revenue for this fund are from charges to customers for tipping fees.

Internal Service Fund

The primary government reports the following internal service fund:

Health Insurance Fund - The Fiscal Court maintains this internal service fund to account for the health insurance provided for other funds, on a cost reimbursement basis.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency funds are used to account for monies held by the county for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds (Continued)

The primary government reports the following fiduciary accounts:

Road Escrow Account - This fund accounts for funds received from road bonds and held until the bonds are released.

Midwestern Gas Transmission Account - This fund accounts for an excessive weight bond held for Midwestern Gas Transmission until the bond is released.

Jail Inmate Account - This fund is a custodial fund for inmates in the Daviess County Detention Center.

Jail Escrow Account - This fund contains unclaimed funds of previous inmates of the Daviess County Detention Center.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-25
Buildings and Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	5-10
Vehicles	\$ 5,000	5-10
Infrastructure	\$ 25,000	10-50

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The county maintained deposits of public funds with three depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 621,362	\$ 1,067,791	\$ (21,910)	\$ 1,667,243
Land	1,040,900			1,040,900
Total Capital Assets Not Being Depreciated	1,662,262	1,067,791	(21,910)	2,708,143
Capital Assets, Being Depreciated:				
Land Improvements	1,056,360	10,020		1,066,380
Buildings	26,510,893	1,027,375	(51,991)	27,486,277
Vehicles and Equipment	8,571,235	909,291		9,480,526
Infrastructure	102,457,218	1,413,111		103,870,329
Total Capital Assets Being Depreciated	138,595,706	3,359,797	(51,991)	141,903,512
Less Accumulated Depreciation For:				
Land Improvements	(14,518)	(11,780)		(26,298)
Buildings	(6,070,674)	(608,362)	5,672	(6,673,364)
Vehicles and Equipment	(5,462,893)	(677,896)		(6,140,789)
Infrastructure	(55,367,578)	(3,188,415)		(58,555,993)
Total Accumulated Depreciation	(66,915,663)	(4,486,453)	5,672	(71,396,444)
Total Capital Assets, Being Depreciated, Net	71,680,043	(1,126,656)	(46,319)	70,507,068
Governmental Activities Capital Assets, Net	\$ 73,342,305	\$ (58,865)	\$ (68,229)	\$ 73,215,211

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2006 was as follows: (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government: (Continued)				
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction In Progress	\$	\$	\$	\$
Land	316,250			316,250
Total Capital Assets Not Being Depreciated	316,250			316,250
Capital Assets, Being Depreciated:				
Land Improvements	8,501,763			8,501,763
Buildings	584,197			584,197
Vehicles and Equipment	4,890,130	572,063	(80,000)	5,382,193
Total Capital Assets Being Depreciated	13,976,090	572,063	(80,000)	14,468,153
Less Accumulated Depreciation For:				
Land Improvements	(7,845,607)	(246,099)		(8,091,706)
Buildings	(137,868)	(13,277)		(151,145)
Vehicles and Equipment	(2,902,414)	(474,064)	72,000	(3,304,478)
Total Accumulated Depreciation	(10,885,889)	(733,440)	72,000	(11,547,329)
Total Capital Assets, Being Depreciated, Net	3,090,201	(161,377)	(8,000)	2,920,824
Business-Type Activities Capital Assets, Net	\$ 3,406,451	\$ (161,377)	\$ (8,000)	\$ 3,237,074

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 199,723
Protection to Persons and Property	771,903
General Health and Sanitation	5,850
Recreation and Culture	58,200
Roads, Including Depreciation of General Infrastructure Assets	<u>3,450,778</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,486,454</u>

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

<u>Business-Type Activities</u>	
Jail Canteen	\$ 15,288
Solid Waste Operations	<u>718,152</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 733,440</u>

Note 4. Long-term Debt - Bonds

A. First Mortgage Refunding Revenue Bonds, Series 1994A

The Daviess County Public Improvement Corporation entered into a bond issue on July 1, 1994 for the purpose of 1) paying the entire principal and interest of the Daviess County, Kentucky Judicial Center Building and Improvement Revenue Bonds, Series 1989 (the "Prior Bonds"); 2) to fund a Debt Service Reserve Fund; 3) to pay for the costs of issuance of Bonds; and 4) to pay for certain costs of equipment to be purchased by the County. The Corporation and Daviess County have entered into an annually renewable lease, dated as of July 1, 1994, wherein the County leases from the Corporation the project and project site. In addition, the Bonds are secured by a foreclosable first mortgage lien on the Project pursuant to the Mortgage Deed of Trust, (the "Mortgage") and by the assignment by the Corporation of all of the Corporation's right, title, and interest to the Lease with the County.

The Daviess County Public Improvement Corporation First Mortgage Refunding and Revenue Bonds, Series 1994A were issued July 1, 1994, for \$4,270,000. The Daviess County Public Improvement Corporation entered into a sublease with the Administrative Office of the Courts (AOC), whereby the AOC makes semi-annual payments directly to the bonding agent to partially fund the debt service for the bond issue.

Interest on the Bonds is payable each April 1 and October 1, beginning October 1, 1994. The Bonds will mature as to principal on October 1, 2014. The principal amount of bonds outstanding as of June 30, 2006 was \$2,115,000 Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 245,000	\$ 112,454
2008	260,000	98,314
2009	275,000	83,334
2010	290,000	67,477
2011	160,000	54,821
2012-2015	<u>885,000</u>	<u>117,500</u>
Totals	<u>\$ 2,115,000</u>	<u>\$ 533,900</u>

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt - Bonds (Continued)

B. General Obligation Public Project Refunding and Improvement Bonds, Series 2003A

The County of Daviess entered into a bond issue, County of Daviess, Kentucky General Obligation Public Project Refunding and Improvement Bonds, Series 2003A dated on September 1, 2003 for the purpose of (i) financing the acquisition, and installation of an operations complex for the County (the "Operations Complex Project"), (ii) currently refunding and retiring a Lease Agreement dated as of January 21, 2002 (the "Prior Lease") between the County and the Kentucky Association of Counties Leasing Trust, the proceeds of which were used to finance on an interim basis the costs of the acquisition, construction, and installation of a detention facility for the County (the "Detention Facility Project," and together with the Operations Complex Project, the "Series 2003A Project") and (iii) paying costs of issuing the Series A Bonds. The issue amount of the bonds was \$8,720,000. Interest on the bonds will be payable from September 1, 2003, on March 1 and September 1, commencing March 1, 2004, and the Series A Bonds mature each September thereafter. The principal outstanding as of June 30, 2006, was \$8,265,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 235,000	\$ 324,655
2008	245,000	319,403
2009	250,000	313,396
2010	255,000	306,640
2011	265,000	298,993
2012-2016	1,460,000	1,345,569
2017-2021	1,780,000	1,028,360
2022-2026	2,200,000	608,313
2027-2029	1,575,000	108,563
Totals	<u>\$ 8,265,000</u>	<u>\$ 4,653,892</u>

C. General Obligation Public Project Bonds, Series 2003B

The County of Daviess entered into a bond issue, County of Daviess, Kentucky General Obligation Public Project Bonds, Series 2003B (Transient Room Tax Supported Project) dated on September 1, 2003 for the purpose of (i) financing the acquisition, construction and installation of improvements to the Owensboro Museum of Fine Art and the Owensboro Riverpark Center (the "Series 2003B Project") and (ii) paying the costs of issuing the Series B Bonds. The issue amount of the bonds was \$2,270,000. Interest on the bonds will be payable from September 1, 2003, on March 1 and September 1 commencing March 1, 2004, and the Series B Bonds mature each September thereafter. The principal outstanding as of June 30, 2006, was \$2,150,000. Future principal and interest requirements are:

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt - Bonds (Continued)

C. General Obligation Public Project Bonds, Series 2003B (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 65,000	\$ 83,938
2008	65,000	82,638
2009	65,000	81,297
2010	65,000	79,794
2011	70,000	77,975
2012-2016	380,000	353,728
2017-2021	460,000	274,200
2022-2026	575,000	162,322
2027-2029	405,000	28,559
Totals	<u>\$ 2,150,000</u>	<u>\$ 1,224,451</u>

D. General Obligation Public Projects Bonds, Series 1999

The Fiscal Court issued obligations, dated March 1, 1999, with interest payable beginning on October 1, 1999, and semiannually thereafter on April 1 and October 1 at varying rates from 4.00% to 4.375%.

The bonds were issued by the County to 1) provide funds to retire the outstanding County of Daviess, Kentucky, Series 1996 Solid Waste System Revenue Bond Anticipation Notes and 2) paying certain costs related to the issuance of the Bonds. The proceeds of the Notes were used to provide for construction and equipment acquisition related to the County's Phase II for development of the County's Solid Waste Landfill, which have been determined to be "public projects" under the Ordinance in accordance with KRS 66.011(17). As of June 30, 2006, bonds outstanding were \$2,190,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2007	\$ 235,000	\$ 92,434
2008	245,000	82,916
2009	255,000	72,871
2010	265,000	62,353
2011	280,000	51,355
2012-2014	910,000	80,501
Totals	<u>\$ 2,190,000</u>	<u>\$ 442,430</u>

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt - Financing Obligations

Airport

The Daviess County Fiscal Court entered into a sublease agreement with the City of Owensboro, Kentucky for the purpose of funding debt service – Airport Revenue Bonds – related to the expansion of the Owensboro-Daviess County Airport. The sublease was entered into on June 1, 1995. Under the terms of the sublease agreement, the County agreed to lease certain airport servitude aviation easements and other property and improvements for one half of the base rentals. The County's portion was subsequently reduced to 42.34%. Any additional rentals are due to be paid by the City of Owensboro, Kentucky under its sublease agreement. During the fiscal year ended June 30, 2006 the City of Owensboro refinanced the bonds relating to this project. The County entered into a new sublease agreement with the City of Owensboro which reduced the County's percentage of the debt to 42.24%. The County's share of principal on the retired bonds was \$1,375,000. The County's share of principal on the new bonds was \$1,077,120 at the time of issue. This resulted in a decrease in debt of \$297,880. During the fiscal year ended June 30, 2006, Daviess County paid \$90,816 in principal relating to the new bond issue. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 95,040	\$ 36,166
2008	97,152	32,839
2009	101,376	29,439
2010	105,600	25,840
2011	109,824	22,039
2012-2015	477,312	46,251
Totals	<u>\$ 986,304</u>	<u>\$ 192,574</u>

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds (Note 4)	\$ 13,055,000	\$	\$ 525,000	\$ 12,530,000	\$ 545,000
Financing Obligations	<u>1,375,000</u>		<u>388,696</u>	<u>986,304</u>	<u>95,040</u>
Governmental Activities Long-term Liabilities	<u>\$ 14,430,000</u>	<u>\$</u>	<u>\$ 913,696</u>	<u>\$ 13,516,304</u>	<u>\$ 640,040</u>

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt - Financing Obligations (Continued)

Changes In Long-term Liabilities (Continued)

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Business-type Activities:</u>					
General Obligation Bonds (Note 4)	\$ 2,415,000	\$	\$ 225,000	\$ 2,190,000	\$ 235,000
Business-type Activities Long-term Liabilities	<u>\$ 2,415,000</u>	<u>\$</u>	<u>\$ 225,000</u>	<u>\$ 2,190,000</u>	<u>\$ 235,000</u>

Note 6. Short-term Debt

In July 2005, Daviess County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$9,588,600, with principal being due in January 2006. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings of \$43,921.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Kentucky Advanced Revenue Program	\$	\$ 9,588,600	\$ 9,588,600	\$
Governmental Activities Short-term Liabilities	<u>\$</u>	<u>\$ 9,588,600</u>	<u>\$ 9,588,600</u>	<u>\$</u>

Note 7. Landfill Closure and Post-Closure Costs

The County operates a landfill in West Louisville, Kentucky. The County must comply with established state and federal landfill operating, closure, and post-closure procedures. The landfill opened in January 1996, with an estimated life of 21.67 years. The landfill was granted an expansion effective February 2005, which increased its estimated useful life by 50 years. As of June 30, 2006, the estimated remaining life of the landfill was 42.71 years. Revised estimated closure costs total \$165,000 and revised estimated post-closure care costs total \$2,475,000 or \$82,500 per year for 30 years. Estimates are based upon 2002 projections, actual costs may be higher due to inflation, changes in technology, or changes in regulations.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Landfill Closure and Post-Closure Costs (Continued)

Daviess County prepares required financial statements on the modified cash basis of accounting in accordance with the laws of Kentucky, therefore no liability has been recognized for the closure or post-closure care costs. State and federal laws and regulations require the fiscal court to provide financial assurance that landfill closure and post-closure care costs are properly funded. In order to meet financial assurance requirements, the fiscal court reserves a portion of the landfill receipts for landfill closure and post-closure care. For every ton deposited into the County's contained landfill, \$2 is transferred from the Solid Waste Operating Account into the Solid Waste Closure Account and \$1 is transferred into the Solid Waste Post-Closure Account. At June 30, 2006, the Solid Waste Closure Account had a balance of \$2,546,450 and the Solid Waste Post-Closure Account had a balance of \$1,699,563.

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

On November 9, 1982, the Daviess County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered Supplementary retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 10. Insurance

For the fiscal year ended June 30, 2005, Daviess County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Self-Insurance

Daviess County Fiscal Court elected to begin a partially self-funded health insurance plan in April 2002. This partially self-funded insurance plan covers all employees. The county pays for 90% of each county employee's coverage, the employee contributes the remaining 10%. Daviess County elected to purchase a stop-loss insurance policy from Hartford Life and Accident Insurance Company to cover losses from individual and aggregate claims once the county reached the individual and aggregate attachment points. Employees are required to assume liability for claims in excess of maximum lifetime reimbursements established by the insurance company.

Daviess County Fiscal Court contracts with Nyhart for administration of the Health Insurance Fund. The Health Insurance Fund had a balance of \$478,374 as of June 30, 2006. The fund balance consists of excess of premiums and reimbursements over claims paid.

Note 12. Related Party Transactions

The Daviess County Fiscal Court awarded a mowing bid to an employee of the Daviess County Road Department. During fiscal year ended June 30, 2006, the Daviess County Fiscal Court paid \$5,897 to this employee for mowing services.

Note 13. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through June 30, 2002. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 14. Beginning Net Assets Restated

The net assets of business-type activities as previously reported have been restated due to breaking out the Jail Canteen Fund as a separate fund. On the prior year's financial statements, the Jail Escrow Account, Inmate Account and the Jail Account (fees collected by the Jail awaiting transfer to the County Treasurer) were combined with the Jail Canteen (Canteen Checking and Money Market accounts) and presented as the Jail Canteen Fund. Additionally, \$15,000 of inmate funds was in the Money Market Account at the beginning of the year. This was transferred to the Inmate Account during the year. We included only the Canteen checking and the Money Market accounts as the Jail Canteen Fund. The Jail Escrow Account and the Jail Inmate Account are being presented as Fiduciary Funds.

	Business Type Activities
Net Assets at June 30, 2005	\$ 6,237,546
Less: Cash Restated as Fiduciary Fund	<u>(62,315)</u>
Net Assets at June 30, 2005 (Restated)	<u><u>\$ 6,175,231</u></u>

The Jail Canteen Fund beginning fund balance was also restated as a result of the items discussed above. The net effect of this was a decrease in fund balance of \$62,315.

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DAVISS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2006

DAVIESS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 11,389,000	\$ 11,389,000	\$ 11,044,448	\$ (344,552)
In Lieu Tax Payments	1,500	1,500	1,308	(192)
Excess Fees	700,000	700,000	712,335	12,335
Licenses and Permits	181,000	181,000	129,146	(51,854)
Intergovernmental	6,837,600	6,837,600	3,833,863	(3,003,737)
Charges for Services	53,000	53,000	60,763	7,763
Miscellaneous	345,600	345,600	504,038	158,438
Interest	220,000	220,000	444,154	224,154
Total Revenues	19,727,700	19,727,700	16,730,055	(2,997,645)
EXPENDITURES				
General Government	5,654,959	5,760,362	5,345,750	414,612
Protection to Persons and Property	2,462,136	2,512,296	2,271,643	240,653
General Health and Sanitation	308,400	315,750	279,485	36,265
Social Services	281,211	284,211	268,613	15,598
Recreation and Culture	1,562,430	1,682,940	1,374,126	308,814
Airports	211,166	217,166	176,051	41,115
Bus Services	300,000	300,000	210,000	90,000
Debt Service	12,220,000	12,220,000	22,023	12,197,977
Capital Projects	3,440,000	3,963,550	1,359,041	2,604,509
Administration	9,603,437	8,787,464	2,702,006	6,085,458
Total Expenditures	36,043,739	36,043,739	14,008,738	22,035,001
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(16,316,039)	(16,316,039)	2,721,317	19,037,356
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	12,000,000	12,000,000		(12,000,000)
Transfers To Other Funds	(2,983,961)	(2,983,961)	(2,676,283)	307,678
Total Other Financing Sources (Uses)	9,016,039	9,016,039	(2,676,283)	(11,692,322)
Net Changes in Fund Balances	(7,300,000)	(7,300,000)	45,034	7,345,034
Fund Balances - Beginning	7,300,000	7,300,000	8,952,700	1,652,700
Fund Balances - Ending	\$ 0	\$ 0	\$ 8,997,734	\$ 8,997,734

DAVIESS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,998,900	\$ 1,998,900	\$ 1,862,808	\$ (136,092)
Miscellaneous	10,000	10,000	18,666	8,666
Interest	10,000	10,000	26,156	16,156
Total Revenues	<u>2,018,900</u>	<u>2,018,900</u>	<u>1,907,630</u>	<u>(111,270)</u>
EXPENDITURES				
Roads	3,664,156	3,675,156	3,468,313	206,843
Administration	16,000	5,000	7,505	(2,505)
Total Expenditures	<u>3,680,156</u>	<u>3,680,156</u>	<u>3,475,818</u>	<u>204,338</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,661,256)</u>	<u>(1,661,256)</u>	<u>(1,568,188)</u>	<u>93,068</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>1,561,256</u>	<u>1,561,256</u>	<u>1,500,000</u>	<u>(61,256)</u>
Total Other Financing Sources (Uses)	<u>1,561,256</u>	<u>1,561,256</u>	<u>1,500,000</u>	<u>(61,256)</u>
Net Changes in Fund Balances	(100,000)	(100,000)	(68,188)	31,812
Fund Balances - Beginning	<u>100,000</u>	<u>100,000</u>	<u>141,272</u>	<u>41,272</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 73,084</u>	<u>\$ 73,084</u>

DAVIESS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
For The Year Ended June 30, 2006
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 4,660,300	\$ 4,660,300	\$ 4,453,665	\$ (206,635)
Charges for Services	300,000	300,000	459,888	159,888
Miscellaneous	141,000	141,000	313,308	172,308
Interest	10,000	10,000	25,251	15,251
Total Revenues	<u>5,111,300</u>	<u>5,111,300</u>	<u>5,252,112</u>	<u>140,812</u>
EXPENDITURES				
Protection to Persons and Property	5,682,200	5,741,100	5,254,874	486,226
Administration	62,000	3,100	1,098	2,002
Total Expenditures	<u>5,744,200</u>	<u>5,744,200</u>	<u>5,255,972</u>	<u>488,228</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(632,900)</u>	<u>(632,900)</u>	<u>(3,860)</u>	<u>629,040</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(425,293)	(425,293)
Transfers From Other Funds	<u>1,048,400</u>	<u>1,048,400</u>	<u>750,000</u>	<u>(298,400)</u>
Total Other Financing Sources (Uses)	<u>1,048,400</u>	<u>1,048,400</u>	<u>324,707</u>	<u>(723,693)</u>
Net Changes in Fund Balances	415,500	415,500	320,847	(94,653)
Fund Balances - Beginning	<u>10,000</u>	<u>10,000</u>	<u>383,958</u>	<u>373,958</u>
Fund Balances - Ending	<u>\$ 425,500</u>	<u>\$ 425,500</u>	<u>\$ 704,805</u>	<u>\$ 279,305</u>

DAVIESS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. General Fund Reconciliation

The General Fund Budgetary Comparison Schedule differs from the Statement of Revenues, Expenditures and Changes In Fund Balances - Governmental Funds for the following:

Ending Fund Balance - Budgetary Basis	\$ 8,997,734
Proceeds From Disposal Of Capital Assets (Carry-forward From Prior Period)	<u>24,065</u>
Ending Fund Balance-Modified Cash Basis	<u><u>\$ 9,021,799</u></u>
Revenue - Modified Cash Basis	\$ 16,678,804
Sale of Surplus Real Property	<u>51,251</u>
Revenue - Budgetary Basis	<u><u>\$ 16,730,055</u></u>
Expenditures - Modified Cash Basis	\$ 13,986,715
Principal and Interest on Judicial Center	<u>22,023</u>
Expenditures - Budgetary Basis	<u><u>\$ 14,008,738</u></u>
Other Financing Sources (Uses) - Budgetary Basis	\$ (2,676,283)
Principal and Interest on Judicial Center	<u>(22,023)</u>
Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ (2,698,306)</u></u>

DAVIESS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

DAVIESS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Local Government Economic Assistance Fund	County Bond Sinking Fund	Daviess County Public Improvement Corporation	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 241,985	\$ 452,118	\$ 439,683	\$ 1,133,786
Total Assets	<u>\$ 241,985</u>	<u>\$ 452,118</u>	<u>\$ 439,683</u>	<u>\$ 1,133,786</u>
FUND BALANCES				
Unreserved:				
Special Revenue Fund	\$ 241,985	\$	\$	\$ 241,985
Debt Service Funds		452,118	439,683	891,801
Total Fund Balances	<u>\$ 241,985</u>	<u>\$ 452,118</u>	<u>\$ 439,683</u>	<u>\$ 1,133,786</u>

The accompanying notes are an integral part of the financial statements.

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DAVIESS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

DAVIESS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Local Government Economic Assistance Fund	County Bond Sinking Fund	Daviess County Public Improvement Corporation	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 298,960	\$	\$ 156,211	\$ 455,171
Interest	7,438	12,522	33,002	52,962
Total Revenues	<u>306,398</u>	<u>12,522</u>	<u>189,213</u>	<u>508,133</u>
EXPENDITURES				
Roads	290,580			290,580
Debt Service		706,134	360,894	1,067,028
Total Expenditures	<u>290,580</u>	<u>706,134</u>	<u>360,894</u>	<u>1,357,608</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>15,818</u>	<u>(693,612)</u>	<u>(171,681)</u>	<u>(849,475)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		851,576	22,023	873,599
Total Other Financing Sources (Uses)		<u>851,576</u>	<u>22,023</u>	<u>873,599</u>
Net Change in Fund Balances	15,818	157,964	(149,658)	24,124
Fund Balances - Beginning	226,167	294,154	589,341	1,109,662
Fund Balances - Ending	<u>\$ 241,985</u>	<u>\$ 452,118</u>	<u>\$ 439,683</u>	<u>\$ 1,133,786</u>

The accompanying notes are an integral part of the financial statements.

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DAVIESS COUNTY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

DAVISS COUNTY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	<u>Road Escrow Account</u>	<u>Midwestern Gas Transmission Account</u>	<u>Jail Escrow Account</u>	<u>Jail Inmate Account</u>	<u>Total Fiduciary Fund</u>
Assets					
Current Assets:					
Cash and Cash Equivalents	<u>\$ 116,089</u>	<u>\$ 7,224</u>	<u>\$ 13,033</u>	<u>\$ 23,098</u>	<u>\$ 159,444</u>
Total Assets	<u><u>\$ 116,089</u></u>	<u><u>\$ 7,224</u></u>	<u><u>\$ 13,033</u></u>	<u><u>\$ 23,098</u></u>	<u><u>\$ 159,444</u></u>
Liabilities					
Amounts Held In Custody For Others	<u>\$ 116,089</u>	<u>\$ 7,224</u>	<u>\$ 13,033</u>	<u>\$ 23,098</u>	<u>\$ 159,444</u>
Total Liabilities	<u><u>\$ 116,089</u></u>	<u><u>\$ 7,224</u></u>	<u><u>\$ 13,033</u></u>	<u><u>\$ 23,098</u></u>	<u><u>\$ 159,444</u></u>

The accompanying notes are an integral part of the financial statements.

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DAVISS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006

**DAVIESS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Daviess County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Daviess County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Daviess County expresses an unqualified opinion.
6. There were no audit findings relative to the major federal awards programs for Daviess County reported in Part C of this schedule.
7. The programs tested as major programs were: Homeland Security Grant Program (CFDA# 97.067), Title IV-D Child Support Enforcement Program (CFDA #93.563) and Help America Vote Act Requirement Payments (CFDA #90.401)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Daviess County was not determined to be a low-risk auditee.

B. CURRENT YEAR FINDINGS-- FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The following comments were corrected.

- The Jailer should request The Fiscal Court reimburse the Jail Commissary Fund for capital expenditures.
- The Jailer should require Inmate Reimbursement Fees be remitted monthly to the County Treasurer.
- The Jailer should have a written agreement to protect deposits.

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DAVIESS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

DAVIESS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2006

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
Crime Victim Assistance		
(CFDA #16.575)	8117-VC4-18/04	\$ 27,000
<u>U.S. Department of Health and Human Services</u>		
Passed-Through State Cabinet for Families		
and Children:		
Title IV-D Child Support Enforcement		
Program (CFDA #93.563)	M-05179840	494,542
<u>Election Assistance Commission</u>		
Passed-Through State Board of Elections:		
Help America Vote Act Requirements Payments		
(CFDA #90.401)	Unknown	474,709
<u>U.S. Department Of Homeland Security</u>		
Passed-Through State Department Of		
Military Affairs:		
Homeland Security Grant Program		
WMD-Hazmat	M-02312992	\$ 253,503
(CFDA # 97.067)		
WMD	M-03254738	811
(CFDA # 97.067)		
MDT Project		
(CFDA # 97.067)	M-04595649	436,192
Daviess County Servers		
(CFDA #97.067)	M-05334396	14,000

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2006

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Passed-Through State Department of Homeland Security		
Homeland Security Grant Program		
Structual Collapse (CFDA #97.067)	M-05330777	\$ 50,000
WMD-Hazmat (CFDA #97.067)	M-04600851	1,344
Disaster Grants - Public Assistance Coordinator Salary (CFDA #97.036)	M-05443535	<u>38,641</u>
Total U.S. Department Of Homeland Security		<u>\$ 794,491</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,790,742</u></u>

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2006

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775

FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

The Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 19, 2006. Daviess County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Daviess County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

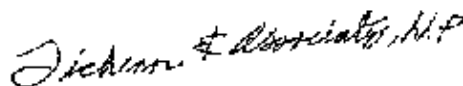
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Daviess County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

December 19, 2006

Tichenor & Associates, LLP

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

The Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Daviess County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Daviess County's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Daviess County's management. Our responsibility is to express an opinion on Daviess County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Daviess County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Daviess County's compliance with those requirements.

In our opinion, Daviess County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

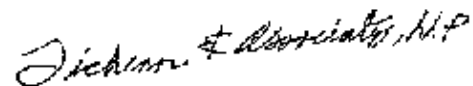
Internal Control Over Compliance

The management of Daviess County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Daviess County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

December 19, 2006

Tichenor & Associates, LLP

**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

DAVIESS COUNTY FISCAL COURT

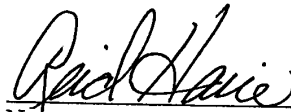
**For The Fiscal Year Ended
June 30, 2006**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT
PROGRAMS

DAVIESS COUNTY FISCAL COURT

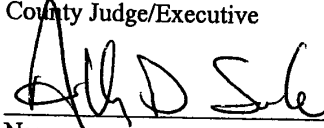
For The Fiscal Year Ended June 30, 2006

The Daviess County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

